

FORM  
**N-586**  
(REV. 2003)

# TAX CREDIT FOR LOW-INCOME HOUSING

Or fiscal year beginning \_\_\_\_\_, 20\_\_\_\_, and ending \_\_\_\_\_, 20\_\_\_\_

Enter the start and end of your tax year in the space provided.

TAX  
YEAR

**20**\_\_ \_\_

ATTACH THIS SCHEDULE AND A COPY OF FEDERAL FORM 8586 TO FORM N-11, N-12, N-15, N-20, N-30, N-35, N-40, N-70NP, F-1 OR TO THE ANNUAL PREMIUM TAX RETURN (Form 314), WHICHEVER IS APPLICABLE. ATTACH THE CERTIFICATE ISSUED BY THE HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII (HCDCH) TO THIS SCHEDULE.

**NOTE: If you are only claiming the tax credit from a flow-through entity, start on line 5.**

Name(s) as shown on Form N-11, N-12, N-15, N-20, N-30, N-35, N-40, N-70NP, F-1, or Form 314	Social Security Number
	Federal Employer I.D. No.

## Part I Low-Income Housing Credit

<b>1</b>	Name and address of building(s) for which the credit is being claimed	
<b>2</b>	Date building(s) placed in service (month, year)	
<b>3</b>	Enter the amount of the tax credit allocated by the HCDCH to Hawaii property .....	<b>3</b>
<b>4</b>	Multiply the amount on line 3 by 30% and enter here.....	<b>4</b>
<b>5</b>	Flow through of Hawaii low-income housing credit received from other entities, if any: Check box below. Name and Federal Employer I.D. No. of Entity	
	<input type="checkbox"/> <b>a</b> S corporation shareholder — enter total from Schedule K-1 (Form N-35), line 12e .....	
	<input type="checkbox"/> <b>b</b> Partner — enter amount from Schedule K-1 (Form N-20), line 16 .....	
	<input type="checkbox"/> <b>c</b> Beneficiary — enter amount from Schedule K-1 (Form N-40), line 8b .....	
	<input type="checkbox"/> <b>d</b> Patron — enter the amount from federal Form 1099-PATR .....	<b>5</b>
<b>6</b>	Carryover of unused low-income housing tax credit from prior years.....	<b>6</b>
<b>7</b>	Tentative current year low-income housing credit (Add lines 4, 5, and 6) .....	<b>7</b>
	<b>Note:</b> Form N-20, Form N-35, and Form 314 filers stop here and enter the amount on line 7 on the appropriate lines of your tax return.	

## Part II Tax Liability Limitations (Not to be completed by Form N-20, Form N-35, and Form 314 filers)

<b>8 a</b>	Individuals — Enter tax liability amount from Form N-11, Form N-12, or, if applicable, Form N-15 .....	
<b>b</b>	Corporations — Enter tax liability from Form N-30 .....	
<b>c</b>	Other filers — Enter your income tax liability, before credits, from the applicable form .....	<b>8</b>
<b>9</b>	Complete the credit worksheet in the instructions and enter the total here .....	<b>9</b>
<b>10</b>	Income tax liability, as adjusted (line 8 minus line 9). If the result is zero or less than zero, enter zero on line 10 .....	<b>10</b>
<b>11</b>	Total credit allowed — Enter the smaller of line 7 or line 10. This is your low-income housing credit allowable for the year. Enter this amount also, rounded to the nearest dollar for individual taxpayers, on the appropriate line for the credit on Schedule CR (for Form N-11, N-12, N-15, N-30, and N-70NP filers); Form N-40, Schedule E; or Form F-1, Schedule H, whichever is applicable.....	<b>11</b>
<b>12</b>	Carryover of unused credit. Enter here the difference between lines 7 and 11; otherwise enter zero. The amount of any unused tax credit may be carried over and used as a credit against your income tax liability in subsequent years until exhausted. ....	<b>12</b>

**PART III** Recapture of Low-Income Housing Credit

Building	Address of Building (as shown on Form N-586)	Date placed in service (from Form N-586)
<b>A</b>		
<b>B</b>		

	Building		TOTAL
	A	B	
<b>1</b> Enter the amount of accelerated portion of tax credits recaptured, federal Form 8611, line 7.....	<b>1</b>		
<b>2</b> Multiply line 1 by 30% and enter result .....	<b>2</b>		
<b>3</b> Enter net recapture amount from flow-through entities, Schedule K-1 or Federal Form 1099-PATR .....	<b>3</b>		
<b>4</b> Enter the interest on line 3 recapture amount (see Instructions) .....	<b>4</b>		
<b>5</b> IRC Section 42 (j)(5) Partnerships ONLY - Enter interest on line 2 recapture amount .....	<b>5</b>		
<b>6</b> Total recapture - Add lines 2, 3, 4, and 5. Enter here and on proper line of your tax return .....	<b>6</b>		

## General Instructions

(Section references are to the Internal Revenue Code (IRC) unless otherwise noted.)

The Hawaii low-income housing tax credit allowed under section 235-110.8, Hawaii Revised Statutes (HRS), is based upon the tax credit allowed for federal income tax purposes under section 42. Generally, the Hawaii low-income tax credit is 30% of the allowable federal low-income housing tax credit. A taxpayer may claim this credit whether or not the taxpayer claims a federal low-income housing tax credit.

**Note:** Although a taxpayer no longer has to claim the federal low-income housing tax credit in order to claim the State low-income housing tax credit, federal low-income housing tax credit forms, Form 8586, will need to be completed in order to claim the State low-income housing tax credit.

**Purpose of Form.** Owners of residential rental buildings providing low-income housing must use Form N-586 to claim the low-income housing credit.

The tax credit does not apply to occupants of low-income housing units.

For more information, contact the Department of Taxation, Taxpayer Services Branch at (808) 587-4242.

**Banks and other financial institutions.** — Complete Parts I and II. Attach a copy of federal Form 8586 to Form F-1.

**Partnerships, S Corporations, Estates and Trusts.**—Complete Part I to figure the credit to pass through to the partners, shareholders, or beneficiaries. Attach a copy of federal Form 8586 to the entity's income tax return.

*Partnership investors now have the flexibility of allocating the State low-income housing tax credit among its partners without regard to the partners' proportionate interests in the partnership for taxable years beginning after December 31, 1999.*

**Insurers.**—Complete Part I to figure the credit to carry to Form 314, Annual Premium Tax Return. Attach a copy of federal Form 8586 to Form 314.

**Caution:** No credit may be claimed on any building for which there has been allowed any relief from the passive loss rules under section 502 of the Tax Reform Act of 1986.

### Statutory Reference. Section 235-110.8, HRS.

#### Low-income housing tax credit.

(a) Section 42 (with respect to low-income housing credit) is operative for purposes of Chapter 235, HRS.

(b) Each taxpayer subject to the tax imposed by Chapter 235, HRS, who files a net income tax return for a taxable year may claim a low-income housing tax credit against the taxpayer's net income tax liability. The amount of the credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by Chapter 235, HRS for the taxable year in which the credit is properly claimed on a timely basis. A credit under this section may be claimed whether or not the taxpayer claims a federal low-income housing tax credit pursuant to section 42.

(c) The low-income housing tax credit shall be thirty per cent of the applicable percentage basis of each building located in Hawaii. Applicable percentage shall be calculated as provided in section 42(b).

(d) For the purposes of this section, the determination of:

- (1) Qualified basis and qualified low-income building shall be made under section 42(c);
- (2) Eligible basis shall be made under section 42(d);
- (3) Qualified low-income housing project shall be made under section 42(g);
- (4) Recapture of credit shall be made under section 42(j), except that the tax for the taxable year shall be increased under section 42(j)(1) only with respect to credits that were used to reduce State income taxes;
- (5) Application of at-risk rules shall be made under section 42(k).

(e) As provided in section 42(e), rehabilitation expenditures shall be treated as separate new building and their treatment under this section shall be the same as in section 42(e). The definitions and special rules relating to credit period in section 42(f) and the definitions and special rules in section 42(l) shall be operative.

(f) The State housing credit ceiling in section 42(h) shall be zero for the calendar year immediately following the expiration of the federal low-income housing tax credit program and for any calendar year thereafter, except for the carryover of any credit ceiling amount for certain projects in progress which, at the time of the federal expiration, meet the requirements of section 42.

(g) The credit allowed shall be claimed against net income tax liability for the taxable year. For the purpose of deducting this tax credit, net income tax liability means net income tax liability reduced by all other credits allowed the taxpayer under Chapter 235, HRS.

A tax credit which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a tax credit must be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to properly and timely claim the credit shall constitute a waiver of the right to claim the credit. A taxpayer may claim a credit only if the building or project is a qualified low-income housing building or a qualified low-income housing project under section 42.

Section 469 (with respect to passive activity losses and credits limited) of the IRC shall be applied in claiming the credit.

(h) The director of taxation may adopt any rules under chapter 91 and forms necessary to carry out section 235-110.8.

The Housing and Community Development Corporation of Hawaii (HCDCH), under the Department of Human Services, is designated as the State housing credit agency to carry out section 42(h) (with respect to limitation on aggregate credit allowable with respect to projects located in the State). As the State housing credit agency, the corporation shall determine the eligibility basis for a qualified low-income building, make the allocation of housing credit dollar amounts with the State, and determine the portion of the State's housing credit ceiling set aside for projects involving qualified nonprofit organizations.

All claims for allocation of the low-income housing credit under section 235-110.8, HRS, shall be filed with the HCDCH. The HCDCH shall determine the amount of the credit allocation, if necessary, and return the claim to the taxpayer. The taxpayer shall file a credit allocation form issued by the HCDCH with the taxpayer's tax return with the Department of Taxation.

## Part III Recapture of Credit

There is a 15-year compliance period during which the residential rental building must meet certain requirements.

**Note:** *If the decrease in qualified basis is because of a change in the amount for which you are financially at risk on the building, then you must first recalculate the amount of credit taken in prior years pursuant to section 42(k) before you calculate the recapture amount on this form.*

Generally, recapture applies if:

- You dispose of a building or an ownership interest in it;
- There is a decrease in the qualified basis of the building from one year to the next; or
- The building no longer meets the minimum set-aside requirements of section 42(g)(1), the gross rent requirements of section 42(g)(2), or the other requirements for the units which are set-aside.

Recapture does **not** apply if:

- You disposed of the building or an ownership interest in it and you posted a satisfactory bond. See section 42(a)(6) for details;

- You disposed of an ownership interest in a building that you held through an electing large partnership;
- The decrease in qualified basis does not exceed the additions to qualified basis for which credits were allowable in years after the year the building was placed in service;
- You correct a noncompliance within a reasonable period after it is discovered or should have been discovered. (However, recapture applies if any vacant unit of comparable or smaller size to the low-income units is rented to other than a low-income tenant (on other than a temporary basis) during any period when the project does not comply with the set-aside requirement or has experienced a reduction in qualified basis for which credits were allowable.);
- The credit did not reduce your tax liability; or
- The qualified basis is reduced because of a casualty loss, provided the property is restored or replaced within a reasonable period.

To complete Part III of Form N-586 you will need copies of all the following federal forms that you have filed: **Form 8586**, Low-Income Housing Credit, **Form 8609**, Low-Income Housing Credit Allocation Certification, **Schedule A (Form 8609)** Annual Statement, and **Form 8611**, Recapture of Low-Income Housing Credit.

## Specific Instructions Part II

### Tax Liability Limitations

**NOTE:** For the purpose of this tax credit, net income tax liability means net income tax liability reduced by all other credits, **except for the high technology business investment tax credit and the technology infrastructure renovation tax credit**, allowed under chapter 235, HRS. If you are also claiming the High Technology Business Investment Tax Credit (Form N-318), and the Technology Infrastructure Renovation Tax Credit (Form N-326), complete this form first, then Form N-318 followed by Form N-326.

**Line 8** — Enter the tax liability before any credits from the appropriate line of your tax return.

**Line 9** — The law requires that ALL other credits except for the high technology business investment tax credit and technology infrastructure renovation tax credit offset a taxpayer's tax liability **BEFORE** allowing a credit for low-income

housing. Complete the *Credit Offset Worksheet* on this page and enter the result on line 9.

**Line 11** — Compare the amounts on lines 7 and 10. Enter the smaller of line 7 or 10 here. This is your maximum credit allowed for this taxable year.

## Part III

**Lines 1 through 6** — If the tax credit is recaptured from more than two buildings, attach a schedule and enter the totals in the third column.

If the tax credit recapture is only from a flow-through entity (partnership, S corporation, estate, or trust) skip lines 1-2 and go to line 3.

### Line 1 — Tax credit

**recapture.**—Section 42(j)(5) partnerships fill in line 6 also. All other flow-through entities (partnerships, S corporations, estates, or trusts) enter the result here and on the appropriate line of Schedule K of your respective return. Enter each recipient's share on the appropriate line of Schedule K-1.

**Lines 4 and 5 — Interest.**—Compute the interest separately for each prior tax year using a rate of 8% (.00667 monthly) for the period beginning on the due date for filing the original return for each prior year involved. Add the interest amounts for each prior year until the earlier of:

- The due date (not including extensions) of the return for the recapture year, or
- The date the return for the recapture year is filed and any income tax due for that year has been fully paid.

Enter the total on line 4 or 5. (This interest is not deductible on your income tax return.)

**Line 6** — Include the total credit recaptured on the appropriate line representing your tax liability.

For flow-through entities that file Form N-20 or Form N-35, identify amounts as "Recapture of low-income housing tax credit":

N-20, Schedule K, line 31 and  
Schedule K-1, line 31.  
N-35, Schedule K, line 17 and  
Schedule K-1, line 20.

### CREDIT OFFSET WORKSHEET

Tax Credit	Amount
a. Income Taxes Paid to another state or foreign country . . . . .	_____
b. Enterprise Zone Tax Credit . . . . .	_____
c. Energy Conservation Tax Credit . . . . .	_____
d. Credit for Employment of Vocational Rehabilitation Referrals . . . . .	_____
e. Individual Development Account Contribution Tax Credit . . . . .	_____
f. Credit for School Repair and Maintenance . . . . .	_____
g. Credit for Low-Income Household Renters . . . . .	_____
h. Credit for Child and Dependent Care Expenses . . . . .	_____
i. Credit from a regulated investment company . . . . .	_____
j. Fuel Tax Credit for Commercial Fishers . . . . .	_____
k. Credit for Child Passenger Restraint Systems . . . . .	_____
l. Capital Goods Excise Tax Credit . . . . .	_____
m. Motion Picture and Film Production Income Tax Credit . . . . .	_____
n. Low-Income Refundable Tax Credit . . . . .	_____
o. Tax Credit for Research Activities . . . . .	_____
p. Renewable Energy Technologies Income Tax Credit . . . . .	_____
q. Hotel Construction and Remodeling Tax Credit . . . . .	_____
r. Ethanol Investment Tax Credit . . . . .	_____
s. Drought Mitigating Water Storage Facility Tax Credit . . . . .	_____
t. Add lines a through s. Enter the amount here and on line 9 . . . . .	_____